

Project Caring for Life— Long-Term Care Funding Alternative

Leonard G. Katsarsky
Vice-Chairman of the Hawaii Long-Term Care Reform Task Force

Introduction

The Eighteenth Legislature, 1995, State of Hawaii sanctioned the establishment of the Hawaii Long-Term Care Reform Task Force as a matter of compelling State interest to design a system of long-term care services for Hawaii's citizens requiring long-term care that is affordable, available, and of high quality. The system would meet current and growing LTC needs; identify and plan new services and delivery systems, and determine how to pay for these services using both public and private funding.

Unfortunately, our society has not made adequate provisions for financing the cost of long-term care. Individuals and families are going broke, the Federal and State Medicaid program is stretched to the breaking point, and the need for long-term care is growing to epidemic proportions. Only society acting in concert will solve this problem.

We are faced with a difficult situation which must be addressed. Solutions will be complex, multifaceted, and demand much creativity. There are no quick fix solutions. One size will not fit all. Hard choices must be made. Difficult decisions will be required from both the Hawaii State Government and the individual citizens which they represent.

The bottom line is, in order for any LTC financing program to work in the State of Hawaii, it must be understandable and acceptable to the constituency. They must have choices and be made aware of them. Once this is achieved and a course of action is determined, legislation to activate the system should take place.

The purpose of the following funding concept is to provide the task force with a sample framework for a long-term care system which could be used as a yardstick for other alternatives as they are considered. It is by no means complete and in order to be effective will require modification and expansion as additional thoughts and information become available. It does however, provide us with much of the LTC situation as it is now; discusses many of the shortfalls and concerns within the system as it now exists; puts in writing the criteria we have committed to in our design of an improved LTC system; and provides us with a LTC financing concept that

will serve as a basis of comparison for all other funding alternatives presented.

Background

Definition

Long-term care includes subacute, rehabilitative, medical, and nursing care for people who have functional limitations or chronic health conditions and who need ongoing health care or assistance with activities of daily living. Long-term care services are provided in a variety of settings, including nursing facilities, assisted care living facilities, adult day care, home, and community based settings.

Examples of activities of daily living include bathing, dressing, eating, toileting, maintaining continence and transferring from bed

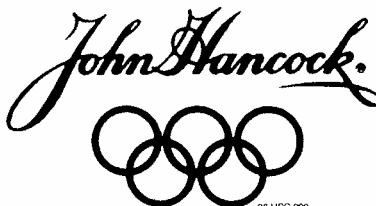
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to chair. Inability to perform activities of daily living (ADL'S) could be due to either physical or cognitive impairment.

Objectives

Senate Concurrent Resolution No. 121, H.D.1, dated May 12, 1995 sanctioned and expressed support for the Hawaii Long-Term Care Reform Task Force. The following long-term care objectives were requested by SCR121, and subsequently adopted by the task force:

1. Study and understand what Hawaii's long-term care needs are and what costs are associated with those needs.
2. Study and understand what resources are available for long-term care for today's elderly and disabled and those who will become the elderly and disabled in about twenty years.
3. Study and evaluate barriers to the provisions of community based services, and the construction of new facilities.
4. Educate the general public about the issue.
5. Establish the framework for implementation of a long-term care system.

Criteria

SCR121 and the Task Force Vision Statement provide the criteria necessary for the design of such a LTC system. They describe a LTC system that should:

1. be affordable.
2. cover as broad a segment of the population as is feasible.
3. significantly offset Medicaid LTC costs.
4. be financially stable over time.
5. offer a comprehensive and cost-effective benefit package with both institutional and home and community based care options.
6. be financed primarily through private funding and secondarily through a public safety net.
7. meet the needs of the Hawaii consumer, providers, and payors.
8. offer a full continuum of care between the nursing home and the home in the least intensive, most appropriate, and affordable settings.

Present Situation

LTC Statistics

The following statistics provide a snapshot of the LTC situation as we know it today and portray the magnitude of the problems that face us from both a national and local perspective.

1. Risk of needing nursing home / home health care

According to The Health Insurance Association of America, 46.8% of people over the age of 65 will spend some time in a nursing home. The odds increase to 71.8% for those who will receive long-term care in the home environment. This statistic becomes even more alarming when we realize that Hawaii has one of the fastest growing percentage of citizens living over the age of 85 in the nation.

2. Available nursing home bed space

National - 56.7 Beds/1000 Population (Age 65+).

Hawaii - 25.8 Beds/1000 Population (Age 65+).

3. Average stay in a nursing home:

National - Less than 4 Years.

Hawaii - 2 Years.

This statistic should not lead to the conclusion that people in Hawaii are healthier on average than the rest of the nation. The fact

of the matter is we lack sufficient bedspace to accommodate our needs. In most cases there are waitlists and therefore, many of the patients are entering nursing homes during their latter stages. Also, the culture of Hawaii favors caring for family members in a home environment for as long as possible.

4. Estimated annual nursing home cost:

National - \$20,000 - \$100,000/Year.

Hawaii - \$42,000 - \$80,000/Year.

These costs appear to increase at an approximate 5% annual rate.

5. Estimated daily home health care cost:

Hawaii - \$15 - \$25/Hour

(2-4 hour minimum for ADL assistance)

These figures represent the typical cost on Oahu for licensed custodial personnel to provide ADL assistance in the home environment. A registered nurse charges around \$35/hour for a home visit.

Levels of Long-Term Care:

Before addressing the present options available and future alternatives contemplated to pay for LTC we should first have a clear understanding of the levels of LTC and how they impact on the problem.

1. **Skilled nursing care** is defined as daily nursing and rehabilitative care, ordered by a doctor, that can be performed only by, or under the supervision of skilled medical personnel.
2. **Intermediate nursing care** requires occasional nursing and rehabilitative care, ordered by a doctor, that can only be performed by, or under the supervision of skilled medical personnel.
3. **Custodial Care** is care of a nonmedical nature provided for persons who cannot perform such basic living activities as eating, bathing, and dressing without assistance.

A LTC survey conducted by Harvard University for the U.S. House of Representatives included a study of these levels of care and determined, based on actual confinements to nursing homes, how each of these levels impacted on the problem of LTC. They concluded that .5% of the patients required Skilled Care, 4.5% required Intermediate Care, and 95.0% required Custodial Care. These statistics were reconfirmed by the Health Care Financing Administration in 1996.

Present Pay Alternatives

Medicare

Medicare is and always has been aimed at paying for acute and post-acute restorative care, not LTC. Medicare only addresses LTC at the skilled level. To qualify for covered skilled nursing facility benefits, the patient must:

1. Require daily skilled care which, as a practical matter, can only be provided in a skilled nursing facility on an inpatient basis.
2. Be in the hospital for at least three consecutive days before entering a skilled nursing facility that is certified by Medicare.
3. Be admitted to the skilled nursing facility for the same condition for which patient was treated in the hospital.
4. Generally be admitted to the facility within 30 days of discharge from the hospital.
5. Be certified by a medical professional as needing skilled nursing or skilled rehabilitation services on a daily basis.

If the patient qualifies, Medicare will pay 100% of the approved

amount for the first 20 days. Medicare provides no coverage after 100 days. Neither Medicare nor Medigap insurance will pay for most nursing home care. Source, National Association of Insurance Commissioners and the U.S. Department of Health and Human Services.

Medicaid

Medicaid is assistance available to help people who are considered indigent or poor pay for health care. The program was never intended to carry the entire financial burden for the LTC costs of our elderly population. To qualify a family must first spend down their assets to poverty level.

Hawaii's Medicaid program has served as a public safety net to assist families that are impoverished to pay medical and LTC expenses. Under current law, with regard to LTC, the Medicaid safety net is only extended to institutional care. Medicaid coverage for the continuum of care provided between the home and nursing home does not presently exist.

Rules governing Medicaid LTC eligibility changed dramatically in August 1993 with the passage of Omnibus Budget Reconciliation Act of 1993 (OBRA). OBRA increased the look-back rules with regard to trusts and significantly changed the way the penalty is calculated and assessed for transfers or gifts within the lookback period. OBRA also requires states to institute recovery programs for all Medicaid services and expenses that are rendered.

Self-Insure (Private Pay)

According to the Health Care Financing Administration, 51% of the LTC costs in the nation are paid by individuals who are self-insured. Unfortunately, the odds are that most individuals who self-insure and require LTC over an extended period of time become impoverished and end up on Medicaid.

Long-Term Care Insurance

Private LTC insurance has been available in Hawaii since 1986 and is a relatively new product in the insurance marketplace. The quality of the product has greatly improved over the past several years. Today, LTC insurance policies include a wide range of benefits, features, and options that cover all levels of care. Many carriers provide coverage for the entire continuum of care stretching from the home to the nursing home. Cost of insurance is generally determined by the level of benefits selected and age at time of issue.

The purpose of LTC insurance is to help people protect themselves and their families from the escalating costs related to LTC. The circumstances for each person or family are generally different. They should therefore be provided with sufficient information to make an informed LTC decision based on their situation. If a LTC insurance program is appropriate it should reflect their situation as best they can afford it.

LTC insurance is not necessarily the answer for everyone. Different situations dictate different solutions. For example, an individual with limited assets and low income may better be served by spending down their assets and then going on Medicaid. Individuals with certain health problems or disabilities may not be able to qualify for coverage and other solutions would be required.

Product Overview

Level of Participation: LTC and how we prepare for it is a major

problem that faces all generations. It is a problem that society must solve. The criteria established for the design of Hawaii's LTC system dictates a system that is responsive to the LTC needs of the people it serves. In order for a LTC system of the magnitude envisioned for the entire State of Hawaii to work it must require the participation of all tax paying citizens. If all citizens are expected to participate they should be given choices that result in a course of action that best reflects their situation.

Continuum of Care

Hawaii's nursing homes are overcrowded and costs are escalating. According to a national study conducted by Harvard University, 95% of the patients in nursing homes require care at the custodial level. Whether or not these statistics are accurate, when applied to Hawaii, it is considered acceptable to assume that when examining the entire spectrum of care from home to nursing home a preponderance of the care required is at the custodial level.

It makes sense for Hawaii to take the necessary steps to create an environment that would fill the continuum between the home and nursing home with services and delivery systems that adequately support LTC at the custodial level. This would not eliminate the requirement for nursing homes but it should take pressure off them and provide our citizens with alternatives that may better fit their situation. Filling the continuum may also help control and reduce the overall cost of care to patients and their families.

Public Safety Net

Medicaid has served as Hawaii's public safety net to assist those who are impoverished pay for LTC. When we consider the overall lack of bedspace that presently exists in Hawaii's nursing homes it becomes evident that our safety net has a hole in it. Medicaid only pays for LTC at the institutional level. If the continuum of care were expanded and Medicaid assistance were extended to include the continuum of care, it would appear, more people could be taken care of in a more cost effective environment.

Funding Choices

Hawaii has one of the fastest growing populations of citizens living over the age of 85 in the nation. The odds are overwhelming that most of them will require LTC sometime in their life. Neither the state nor the nation has adequate financial resources to cope with the problem. Statistics reflect society has not made adequate provisions and that 92% of today's LTC bills are paid either by Medicaid or individuals who have chosen to self-insure. Unfortunately, most of those who self-insure and require LTC over an extended period of time become bankrupt and go on Medicaid.

When it comes down to who should be held accountable to pay for the system, the choices are limited. Every taxpayer above the level of poverty would be required to contribute to the funding of the system by electing to either to pay an annual LTC assessment based on their income or purchase a LTC insurance policy and transfer the risk to the insurance company. Individuals, at their own discretion, would be allowed to change their funding options to better reflect any changes in their personal situation. Those who elect to pay the assessment would still be required to spend down their assets prior to qualifying for Medicaid. The revenue generated through the collection of assessments would be utilized to offset Medicaid costs incurred at service and support levels below the nursing home. For

purposes of this concept paper it is assumed the annual assessment would not exceed 1% of gross income.

It is anticipated there would be an immediate influx of funds which could be used initially by the State to support the creation of a LTC environment of care between the home and the nursing home that is affordable, available, and of high quality.

Incentives

Appropriate incentives/disincentives should be created for both options to reflect the potential impact of each decision on the system. For example, those that would elect to pay the annual assessment would still be required to spend down their assets prior to qualifying for Medicaid assistance. However, if they do qualify and receive Medicaid, the entire sum of their assessed fees paid into the system would first be deducted from Medicaid's costs before any cost recovery measures are taken as required by OBRA93. Conversely, if the assessment option were elected and Medicaid assistance is not required, the entire sum of fees paid would be credited as a deduction from the participant's final estate taxes.

The obvious incentive for those who purchase LTC insurance would be an income tax deduction for the paid premium. On 21 August 1996, President Clinton signed into law "The Kennedy/Kassebaum Bill, Health Insurance Portability and Accountability Act." The law provides the following federal tax incentives for those who purchase tax qualified LTC insurance.

1. Individual Participants: A deduction up to certain age-related limits of their LTC insurance premiums, plus all LTC out of pocket expenditures, as part of the medical expense deduction over 7.5% of adjusted gross income on the federal tax form.
2. Employer Deductibility: All employer LTC premium contributions for employees are deductible to the employer as a business expense and non-taxable to the employee. Premiums paid on behalf of their employee's spouses are in fact also tax deductible as a business expense.
3. Self-Employed: 40% of the LTC premium is deductible as a business expense.

Product Examination

The purpose of the following product examination is to contrast the LTC funding alternative, as proposed, with the product design criteria established by SCR121 and Project Hawaii Cares' Vision Statement.

Criteria: LTC System should be affordable.

Discussion: In concept, the LTC Funding Alternative should be affordable. For the sake of this concept paper, it is assumed that the cost for the assessment option would not exceed 1% of annual gross income. The cost of LTC insurance is generally determined by the level of benefits selected and age at time of issue. By expanding the continuum of care and extending Medicaid to include the continuum of care below institutional level, it would appear, more people could be taken care of in a more cost-effective environment.

Criteria: LTC System should cover as broad a segment of the population as is feasible.

Discussion: Definitely. This system is designed to cover every citizen that requires LTC.

Criteria: LTC System should significantly offset Medicaid costs.

Discussion: Yes. By design, the Medicaid safety net has been

extended to include the continuum of care below the nursing home. Much of this cost should be absorbed through funds obtained from participants that elect the assessment option.

Criteria: LTC System should be financially stable over time.

Discussion: As people become better informed about LTC and are made aware of their alternatives, it is anticipated a great percent of them will elect to purchase their own coverage through a LTC insurance policy. Also, at their own discretion, individuals would be allowed to change their funding option to better reflect their personal situations.

Criteria: LTC System should offer a comprehensive and cost-effective benefit package with both institutional and home and community based care options.

Discussion: Yes. By design.

Criteria: LTC system should be financed primarily through private funding and secondarily through a public safety net.

Discussion: Yes. By design.

Criteria: LTC System should meet the needs of the Hawaii consumer, providers, and payors.

Discussion: Yes. The Medicaid safety net has been extended. The continuum of care has been expanded to include more services and delivery systems.

Criteria: LTC System should offer a full continuum of care between the nursing home and the home in the least intensive, most appropriate, and affordable settings.

Discussion: Yes. By design.

Summary

The synopsis of The Hawaii Long-Term Care Task Force describes the product of project "Caring ... For Life" as "the framework for implementation of a long-term care system. Framework will encompass promotion, programs, education, legislation and other initiatives necessary for an effective system. The product will be a combined effort of the private sector and government to bring about changes which will provide a continuum of services to all residents in need of long-term care in the least intensive, most appropriate and affordable setting."

The purpose of this concept paper has been to paint the big picture of LTC as it now is and provide, in concept, an alternative picture of what it could be. It is by no means complete but hopefully will serve as an initial effort to be addressed and, if appropriate, be expanded upon or modified. It could also serve as a basis of comparison for other alternatives as they are considered.

Long-term care is a complex problem, there are no quick fixes. The solution will require great imagination and the ultimate of our creativity. The product should be flexible and above all, should be able to stand the test of time.

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